

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**AAA MID-ATLANTIC INSURANCE
COMPANY**

Haverford, Pennsylvania

**AS OF
November 18, 2008**

COMMONWEALTH OF PENNSYLVANIA

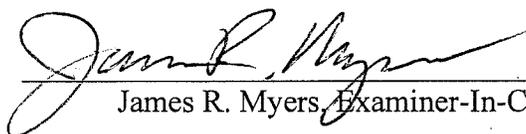


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: December 11, 2008

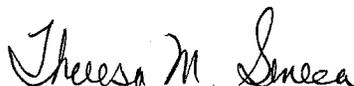
VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 30 Day of October, 2008



Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

AAA MID-ATLANTIC INSURANCE COMPANY

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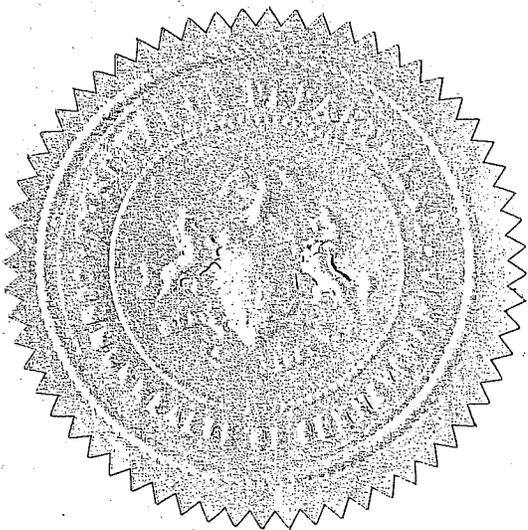
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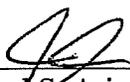
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
AAA MID-ATLANTIC INSURANCE : Sections 641.1-A and 671-A of Act 147
COMPANY : of 2002 (40 P.S. §§ 310.41 and 310.71)
One River Place :
Wilmington, DE 19801 : Section 903(a) of the Insurance
: Department Act, Act of May 17, 1921,
: 1921, P.L. 789, No. 285 (40 P.S. § 323.3)
: :
: Act 1990-6, Sections 1705(a)(1) and (4),
: 1716, 1725, 1731(b) and (c), 1734,
: 1738(c), (d)(1)&(2), and (e), and 1793(b)
: (Title 75, Pa.C.S. §§ 1705, 1716, 1725,
: 1731, 1734, 1738 and 1793)
: :
: Sections 2002(c)(3), 2003(a)(14),
: 2006 and 2008(b) of Act 68 of 1998
: (40 P.S. §§991 .2002, 991.2003,
: 991.2006 and 991.2008)
: :
: Title 31, Pennsylvania Code, Sections
: 61.10(c), 69.22(c) and 69.52(b)
: :
Respondent. : Docket No. MC08-11-016

CONSENT ORDER

AND NOW, this *11th* day of *December*, 2008, this Order is hereby
issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant
to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is AAA Mid-Atlantic Insurance Company, and maintains its address at One River Place, Wilmington, Delaware 19801.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2007 through December 31, 2007.
- (c) On November 18, 2008, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on November 25, 2008.

- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);

 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

 - (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

 - (iv) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to

elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (v) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

- (vi) Section 1725 of Act 1990-6, Title 75, Pa.C.S. § 1725, which requires every motor vehicle insurance policy to contain a notice whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters;

- (vii) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;

- (viii) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which requires a named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in amount equal to or less than the limits of liability for bodily injury:

- (ix) Section 1738(c)(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;

- (x) Section 1738(e) of Act 190-6, Title 75, Pa.C.S. § 1738, which states the uninsured and underinsured rejection forms must be signed by the first named insured and dated to be valid. Any rejection form that does not comply with this section is void;

- (xi) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

- (xii) Section 2002(c)(3) of Act 68 (40 P.S. § 991.2002), which requires that an insurer supply the insured with a written statement of the reasons for cancellation;

- (xiii) Section 2003(a)(14) of Act 68 (40 P.S. § 991.2003), which states an insurer may not cancel or refuse to write or renew a policy of automobile insurance for any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The company cannot cancel or refuse to write based on a comprehensive claim;

- (xiv) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2006), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;

- (xv) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

(xvi) Title 31, Pennsylvania Code, Section 61.10(c), which states the 60 day period referred to is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. Should an insurer, after the investigation, conclude that it does not wish to remain on the risk, it may cancel the policy, provided that its action is not in violation of Section 3 of Act 68, however for purposes of review by the Department in order to determine whether the action by the insurer is in violation of Act 68, the cancellation shall be considered to be a refusal to write;

(xvii) Title 31, Pennsylvania Code, Section 69.22(c), which requires the insurer, when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill; and

(xviii) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Sections 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

- (c) Respondent's violations of Sections 2002, 2003, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S.

§ 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Office Manager, Bureau of Market Conduct, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

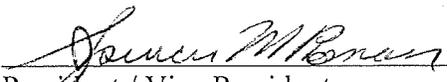
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

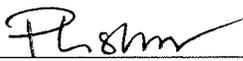
11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

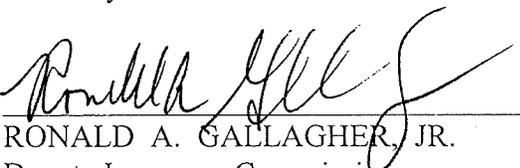
BY: AAA MID-ATLANTIC INSURANCE
COMPANY, Respondent



President / ~~Vice President~~



Secretary / ~~Treasurer~~



RONALD A. GALLAGHER, JR.
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at AAA Mid-Atlantic Insurance Company's office located in Wilmington, Delaware, from July 7, 2008, through August 1, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

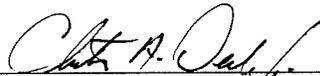
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

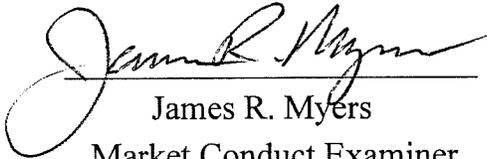
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

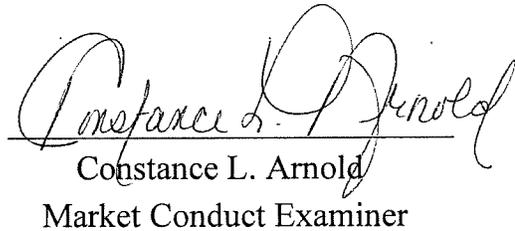
The undersigned participated in this examination and in preparation of this Report.



Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on AAA Mid-Atlantic Insurance Company, hereinafter referred to as “Company,” at their office located in Wilmington, Delaware. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2007, through December 31, 2007, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Claims
3. Forms
4. Advertising
5. Complaints
6. Licensing

III. COMPANY HISTORY AND LICENSING

AAA Mid-Atlantic Insurance Company was incorporated in Pennsylvania on November 26, 1996, to specifically meet the insurance needs of AAA Mid-Atlantic, Inc. automobile club members. The Company commenced business on July 28, 1997.

LICENSING

AAA Mid-Atlantic Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on April 8, 1997. The Company is licensed in Delaware, Maryland, Pennsylvania and Virginia. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$46,482,936. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$29,420,772 and Private Passenger Auto Physical Damage \$17,062,164.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and underwriting guides were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

From the universe of 129 private passenger automobile files identified as being cancelled in the first 60 days of new business, 25 files were selected for review. All 25 files were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]

An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The Company cannot cancel or refuse to write based on a comprehensive claim.

1 Violation Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Requires that an insurer supply the insured with a written statement of the reason for cancellation. The file noted was a policy cancelled within the first 60 days of new business inception date and did not contain evidence that a notice of cancellation was sent to the insured.

1 Violation Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant.

AND

Title 31, Pa. Code, Section 61.10(c)

The 60 day period referred to is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. Should an insurer, after the investigation, conclude that it does not wish to remain on the risk, it may cancel the policy, provided that its action is not in violation of Section 3 of Act 68. A cancellation of the policy is exempt from the purview of Act 68; however, for purposes of review by the Department in order to determine whether the action by the insurer is in violation of Section of Act 68, the cancellation shall be considered to be a refusal to write.

The Company did not provide any evidence that a cancellation notice was sent and compliance could not be determined.

2. Midterm Cancellations

A midterm cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 1,793 private passenger automobile files identified as midterm cancellations by the Company, 41 files were selected for review. All 41 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 250 private passenger automobile files identified as nonrenewals by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

2 Violations Act 68, Section 2006 [40 P.S. §991.2006]

Requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation.

AND

Insurance Department Act, Section 903(a) [40 P.S. §323.3]

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The 2 files noted did not show any evidence of a nonrenewal notice being sent to the insured and compliance could not be determined.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD

arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

VI. RATING

A. Private Passenger Automobile

1. New Business

New business, for the purpose of this examination, is defined as policies written for the first time by the Company during the experience period.

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – New Business Without Surcharges

From the universe of 3,859 private passenger automobile policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 7,722 violations noted were based on the universe of 3,859, which resulted in an error ratio of 100%.

The following findings were made:

2 Violations Title 75, Pa. C.S. §1705(a)(1)&(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to provide a signed limited tort form prior to policy issuance for the 2 files noted.

3,859 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company provided the required notice but it was not located on the first page of the policy in boldface capital letters.

1 Violation Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope

and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

1 Violation Title 75, Pa. C.S. §1738(c)(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

3,859 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made for motor vehicle insurance coverage.

Private Passenger Automobile - New Business With Surcharges

From the universe of 417 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 841 violations noted were based on the universe of 417 files, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1705(a)(1)&(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to provide a signed limited tort form prior to policy issuance for the file noted.

417 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company provided the required notice but it was not located on the first page of the policy in boldface capital letters.

2 Violations Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide a signed written rejection form for uninsured and underinsured motorist coverage for the 2 files noted.

2 Violations Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The 2 files noted did not contain a written request for lower limits of liability.

1 Violation Title 75, Pa. C.S. §1738(c)(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

1 Violation Title 75, Pa. C.S. §1738(e)

The uninsured and underinsured rejection forms must be signed by the first named insured and dated to be valid. Any rejection form that does not comply with this section is void. The uninsured and underinsured rejection form was not signed by the first named insured.

417 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at

the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made for motor vehicle insurance coverage.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed

and approved rating plans.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 25,269 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 25,269 violations noted were based on the universe of 25,269, resulting in an error ratio of 100%.

The following findings were made:

25,269 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company provided the required notice but it was not located on the first page of the policy in boldface capital letters.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 2,205 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 2,205 violations noted were based on the universe of 2,205, resulting in an error ratio of 100%.

The following findings were made:

2,205 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company provided the required notice but it was not located on the first page of the policy in boldface capital letters.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

A. Automobile Property Damage Claims

From the universe of 2,661 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

From the universe of 1,054 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 3,329 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 539 private passenger automobile total loss claims reported during the experience period, 60 files were selected for review. All 60 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

From the universe of 516 private passenger automobile first party medical claims reported during the experience period, 50 claim files were selected for review. All 50 files were received and reviewed. The 18 violations noted were based on 12 files, resulting in an error ratio of 24%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill.

The 2 violations noted were due to the insurer not notifying

the insured that the first-party limits have been exhausted.

11 Violations Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company failed to pay medical bills within 30 days for the 11 files noted.

5 Violations Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on 5 claims that were not paid within 30 days.

E. Automobile First Party Medical Claims Referred to a PRO

From the universe of 36 automobile first party medical claim referred to a peer review organization by the Company, 12 files were selected for review. All 12 files were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the

experience period. The contracts were received and reviewed. No violations were noted.

The following concern was noted:

Concern: It is a concern that when calculating the total first party benefit limits paid, the Company is including any interest that was payable to the provider as a result of late payment penalty. The Company shall exclude the interest and any other expense items as the total amount payable and available for the total first party benefit limits.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

No violations were noted.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 80 pieces of advertising in use during the experience period, which included brochures, mail solicitations and newsletters. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 59 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 59 complaints reported, 25 files were selected for review. All 25 files were received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

No violations were noted.

The following synopsis reflects the nature of the 25 complaints that were reviewed.

•	19	Cancellation/Nonrenewal	76%
•	4	Claims Handling	16%
•	1	Premium	4%
•	1	Miscellaneous	4%
	<hr/>		<hr/>
	25		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following findings were made:

*1 Violation Insurance Department Act, No. 147, Section 641.1A
[40 P.S. §310.41a]*

(a) Any insurance entity or licensee accepting applications or orders for insurance from any person or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

The following producer was found to be writing and/or soliciting policies but was not found in Insurance Department records as holding a Pennsylvania producer license.

William Magel

*1 Violation Insurance Department Act, No. 147, Section 671-A
(40 P.S. §310.71)*

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producer was found to be writing policies but was not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Christina Delia

XII. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2002, 2003, 2006 and 2008 [40 P.S. §991.2002, 2003, 2006 and 2008], so that the violations noted in the Report do not occur in the future.
2. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
3. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.
4. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written

rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.

5. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
6. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.
7. The Company must review Title 75, Pa. C.S. §1725 to ensure that a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage shall be printed on the first page of the policy in boldface capital letters.
8. The Company must review Title 75, Pa. C.S. §1738(e) to ensure that uninsured and underinsured rejection forms are signed by the first named insured and dated in order to be valid.
9. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the insured is properly notified that first-party medical benefits have been exhausted.

10. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.

11. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

12. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

XIII. COMPANY RESPONSE



**Mid-Atlantic
Insurance Group**

Paul Laskow
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November 24, 2008

UPS OVERNIGHT DELIVERY

Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief
Pennsylvania Insurance Department
1227 Strawberry Square
Harrisburg, PA 17120

Dear Mr. Derk:

This acknowledges receipt of your letter of November 18, 2008, transmitting the Report of Examination ("Report") of AAA Mid-Atlantic Insurance Company ("Company") and kindly inviting the response of the Company to the findings and conclusions contained therein.

The Company accepts the offer to respond, but at the outset, please know that we share the view of the Insurance Department that market conduct examinations serve a useful purpose in identifying areas where the Company may improve in terms of serving customers and achieving consistent conformity with the laws and regulations governing the business of insurance. Acting on this shared interest, following the last Market Conduct Examination, the Company decided to develop and staff a full-time position of Market Conduct Analyst. The Market Conduct Analyst monitors developments in the law and studies the examination reports issued by the insurance regulators in the various markets served by the Insurance Group. Working with the sales, underwriting and product management managers and staff, they examine similar areas of regulatory exposure within Company operations and pursue appropriate corrective actions as indicated. While the Report has identified violations, the number, with two possible exceptions, and the scope of violations are much reduced since the last examination by the Insurance Department. This improvement is a credit to the commitment of the operating units, their managers and staff collaborating with the Market Conduct Analyst.

With regard to our responses, each response will summarize the Recommendations made by the Department and succinctly outline the Company's corrective action.

We appreciate the professional approach you and the Examiners took during this most recent examination and look forward to resolution of this matter.

Thank you again for your consideration in this regard.

Very truly yours,

A handwritten signature in black ink, appearing to read "P. Laskow", with a long horizontal flourish extending to the right.

Paul Laskow

Recommendation #1:

The Company was advised to review and revise its internal control procedures to ensure compliance with the cancellation and non-renewal notice requirements. The Company made immediate improvements to its practices and procedures to ensure compliance with the cancellation and non-renewal laws. First, the Company reviewed its current guidelines to ensure they were in compliance with the Pennsylvania laws. The guidelines were then discussed at several separate compliance meetings with the Director of Operations and the Director of Product Management and their staff. Several meetings were then held with the underwriting staff to review the requirements and ensure staff comprehension. Several written communications were distributed to serve as reminders, as well. Additionally, the cancellation and non-renewal notices are now scrutinized by the Underwriting Director and subsequently reviewed by the Company's Market Conduct Analyst as part of the on-going audit process. With regard to the retention of the notices, the team from Product Management is enhancing the programming that will improve the Company's current imaging process so that notices may be more readily indexed and retrieved. We expect this programming to dramatically improve our imaging process which is currently a manual process. In addition, we have in-sourced the imaging of coverage selection forms and other policyholder notices to improve quality control pending further development of electronic solutions to mitigate the chance of manual errors in this area.

Recommendation #2:

The Company was advised to revise its procedures to ensure that, among other things, signed tort selection forms are obtained and retained in the Company's underwriting files. The Company has taken immediate corrective action on this matter. All associates were reminded that a tort selection form must be included in the underwriting file. If the customer fails to return the form, a member of the service checkpoint team follows-up with the customer and, if necessary, reforms the policy in accordance with the law. Additionally, as previously stated, the team from Product Management is enhancing the programming that will improve the Company's current imaging process so that forms may be more readily indexed and retrieved. This should dramatically improve our ability to retrieve policy documents. In addition, we have in-sourced the imaging of coverage selection forms and other policyholder notices to improve quality control pending further development of electronic solutions to mitigate the chance of manual errors in this area. This matter will also be monitored by the Market Conduct Analyst during the operations audits.

Recommendation #3:

The Company was advised to revise its underwriting procedures to ensure that, among other things, a signed form rejecting uninsured and underinsured motorist coverage is maintained in its files. Again, the Company took immediate corrective action on this point. All associates were reminded in writing that a signed rejection form is required where a customer does not want to carry uninsured or underinsured motorist coverage on the policy. If the customer fails to return the form, a member of the Company's service checkpoint team follows-up with the customer and, if necessary, reforms the policy. Additionally, as previously stated, the team from Product Management is enhancing the programming that will improve the Company's current imaging process so that forms may be more readily indexed and retrieved. This should dramatically improve our ability to retrieve policy documents. In addition, we have in-sourced the imaging of coverage selection forms and other policyholder notices to improve quality control pending

further development of electronic solutions to mitigate the chance of manual errors in this area. This matter will also be monitored by the Market Conduct Analyst during the operations audits.

Recommendation #4:

The Company was advised to revise its underwriting procedures to ensure that, among other things, a signed form waiving stacked limits of uninsured and underinsured motorist coverage is maintained in its files. Again, the Company took immediate corrective action on this point. All associates were reminded that a signed waiver is required when a customer does not want stacked uninsured or underinsured motorist coverage on the policy. If the customer fails to return the form, a member of the Company's service checkpoint team follows-up with the customer and, if necessary, reforms the policy. Additionally, as previously stated, the team from Product Management is enhancing the programming that will improve the Company's current imaging process so that forms may be more readily indexed and retrieved. This should dramatically improve our ability to retrieve policy documents. In addition, we have in-sourced the imaging of coverage selection forms and other policyholder notices to improve quality control pending further development of electronic solutions to mitigate the chance of manual errors in this area. This matter will also be monitored by the Market Conduct Analyst during the operations audits.

Recommendation #5:

The Company was advised to ensure that each insured was provided with a surcharge disclosure plan at the time of application. In this instance, the operations management communicated in writing to all Sales associates and supervisors the correct practice to ensure compliance at the correct point in the application process. The Surcharge Disclosure Plans were added to the Company's intranet site and all Sales associates were provided with the link where they may access the forms. This requirement was also added to the point of sale checklist that is used to remind Sales associates of what forms are required at that point in the application process. Regular follow-up communications with Sales managers are planned.

Recommendation #6:

The Company was advised to ensure that, among other things, the Company must maintain a copy of the request for lower limits of liability for uninsured and underinsured motorist coverage in its files. The Company took immediate corrective action on this matter. All associates were reminded in writing that a signed form is required when a customer wants limits of uninsured or underinsured motorist coverage lower than the bodily injury limits on the policy. If the customer fails to sign and return the form, a member of the Company's service checkpoint team follows-up with the customer, and, if necessary, reforms the policy. Additionally, as previously stated, the team from Product Management is enhancing the programming that will improve the Company's current imaging process so that forms may be more readily indexed and retrieved. This should dramatically improve our ability to retrieve policy documents. In addition, we have in-sourced the imaging of coverage selection forms and other policyholder notices to improve quality control pending further development of electronic solutions to mitigate the chance of manual errors in this area. This matter will also be monitored by the Market Conduct Analyst during the operations audits.

Recommendation #7:

The Company was advised that it must place on the first page of its policy a notice as to whether the policy covers collision damage to rental vehicles and in compliance with the Pennsylvania law. Currently, the Company does provide the notice but it appears on the last page of the customer's declarations. The Company is implementing a new system to produce its personal auto policy and this requirement has been incorporated into the system's requirements. Once the new systems platform is implemented, this requirement will be fully satisfied. In the interim, the Company will issue a stand-alone notice to be placed in front of the first page of the Declarations incorporating the applicable wording.

Recommendation #8:

The Company was advised to review its procedures to ensure that uninsured and underinsured motorist rejection forms are signed by the first named insured and dated. In this instance, the Corporate Legal Department reviewed this requirement at several compliance meetings with underwriting staff. The Director of Operations issued written reminders which were reviewed by managers with the appropriate staff to reiterate that this form must be signed by the first named insured. Additionally, associates were reminded that if the first named insured did not sign the form, they must follow-up and reform the policy, where appropriate. This matter will also be monitored by the Market Conduct Analyst during the operations audits.

Recommendation #9:

The Company was advised to ensure claim staff properly notified the insured that first party benefits were exhausted. The Claims Department with the assistance of the Corporate Legal Department improved this process by creating a template that is available on the claims system for the purpose of informing insured's of the status of the benefits. This matter will also be monitored during the claims audits.

Recommendation #10:

The Company was advised to ensure that claims staff pays first party medical bills within 30 days. Executive claims management reviewed the requirements with the appropriate claims associates, supervisors and managers. All associates were reminded of the requirements of the Pennsylvania law. Additionally, the Claims Department is monitoring this matter during its claims audits to ensure timely payment.

Recommendation #11:

The Company was advised that first party claims which have not been paid within 30 days must be paid with interest at the rate of 12% annum from the date the benefits become due. Executive claims management reviewed the requirements with the appropriate claims associates, supervisors and managers. All associates were reminded of the requirements to pay timely and to pay with interest where payments have not been made within 30 days. Additionally, the Claims Department is monitoring this matter during its claims audits to ensure timely payment and, where applicable, payment with interest.

Recommendation #12:

The Company was advised to ensure that all producers are properly licensed and appointed prior to accepting business from any producer. Here, the Company has taken immediate corrective

action across several areas of the business including Human Resources, Producer Licensing, Product Management and Information Technology. This issue arose where associates, licensed and appointed as producers, retired or terminated employment with the Company, yet their name continued to appear under a "contact us" heading on the declarations page. The Company's improved process involves a streamlined communication procedure where appropriate associates are notified of a producer's (associate's) termination or retirement. Where a terminated or retired producer's name appears on the declarations, the name will be removed from the policy production system's table and the contact information will be placed into a house account.